Establishing Credit & Credit Cards

A **credit card** is a payment card issued to users as a system of payment. It allows the cardholder to pay for goods and services based on the holder's promise to pay for them. The issuer of the card creates a revolving account and grants a line of credit to the consumer (or the user) from which the user can borrow money for payment to a merchant or as a cash advance to the user.

A credit card is different from a charge card. A charge card requires the balance to be paid in full each month. In contrast, credit cards allow the consumers a continuing balance of debt, subject to interest being charged.

Credit card debt is an example of unsecured consumer debt, accessed through credit cards.

Debt results when a client of a credit card company purchases an item or service through the card system. Debt accumulates and increases via interest and penalties when the consumer does not pay the company for the money he or she has spent.

The results of not paying this debt on time are that the company will charge a late payment penalty (generally in the US from $10 to $40) and report the late payment to credit rating agencies. Being late on a payment is sometimes referred to as being in "default." The late payment penalty itself increases the amount of debt the consumer has.

Definitions

APR: Annual percentage rate

Minimum Payment: The amount the credit card company requires you to pay toward your debt. Calculated based upon your balance, but often around $10 per month.

Example

- You spend $100 at Target and charge purchases to your credit card.
- Your APR is 12%.

The credit card company will charge you $12 per year on that $100. That equates to $1 per month on that $100 until you pay it off. If your debt increases beyond that initial $100, your minimum payment will increase as well.

Additional Information

Visa's "Student" page:
http://usa.visa.com/personal/student/credit_101/generate_good_credit.jsp